SNL FINANCIAL RATING
Overview of SNL Financial's Bank Rating

Overview

The SNL Financial provides 3 Bank Insight depository ratings:
  - National- Compares all institutions of like types to all other institutions in the nation
  - Regional-Compares all institutions of like types to all others in a certain region
  - Asset Size peer group-Compares all institutions of like types to others based on their asset size

The Alabama SAFE program uses the asset based peer group for ratings.

Ratings are calculated using quarterly data obtained from the FDIC call reports, Federal Reserve Y-9C reports, Office of Thrift Supervision TFR reports and NCUA call reports. Banks are assigned a numerical rating from 0-99, with 99 representing the top performers and 0 representing the lowest.

The SNL Rating should be used to estimate an institution's health and potential for failure. It is not a credit rating and is not intended to be a judgment on a bank's current quarter performance. Use the rating as a starting point in evaluating a bank's health. There are other factors that should be considered in determining the health of an institution; Management capability, regional economic strength, bank holding company policy and strength, and exceptions made in conjunction with regulators.

Calculation

Different ratios are used to compute ratings for different kinds of institutions. For example, the four ratios used for bank ratings are as follows:

Capital Adequacy: Core Cap-Loss on AFS Securities/Adjusted Total Assets
Asset Quality: Adjusted Nonperforming Loans & OREO/Total Loans & OREO
Earnings: Operating Profit / Average Assets
Liquidity: Liquid Assets / Total Liabilities

Each institution's ratios are weighted to arrive at a raw score. For an average institution the approximate weightings, which indicate the relative importance of each ratio used in the new rating system, are as follows:

Capital Adequacy   30%
Asset Quality   35%
Earnings   25%
Liquidity   10%

Calculation of Rating

Step 1: For each institution, data is pulled for each of the four ratios for the current quarter and the previous four year ends.

Step 2: The ratio value is then multiplied by its corresponding weight for each of the five time periods (current quarter and the four previous year ends)

-Weights: Capital Adequacy- 0.03
-Asset Quality – 0.106
-Earnings – 0.215
-Liquidity – 0.0035

Step 3: The weighted financial metrics are summed for each time period to derive a raw score. Each institution will have 5 raw scores, one for each time period.

Step 4: A single mean and standard deviation are calculated using the raw scores for all institutions and all time periods based on the specific group for each rating(National, Regional and Asset Size). Raw scores >7 and < -3.5 are excluded.

Step 5: For each institution, the distance of the current quarter's raw score from the mean is calculated with the following formula: (raw score-mean)/standard deviation

Step 6: Using the lookup table, the distance from the mean is converted into a score for each institution.
   -The lookup table has scores from 0 to 50 that are assigned based on the distance from the mean.
   -If the distance from the mean is positive, the score is added to 50. If the distance from the mean is negative, the score is subtracted from 50.
   -The resulting number is the rating.

For more detail on the SNL-Bank Insight ratings please call SNL support @ 888-275-2822 or support@SNL.com